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IN THE

Supreme Court of the United States

OCTOBER TERM, 1975

No. 75-271

PACKAGING INDUSTRIES, INC.,

Petitioner,

—against—

DIEMATIC MANUFACTURING CORP.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

The petitioner respectfully prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals entered on May 23, 1975.

Opinions Below

The opinion of the Court of Appeals for the Second Circuit has not yet been reported and is set forth in the Appendix, *infra,* p. A3.* The opinion of the District Court for the Southern District of New York has not been reported and is set forth in the Appendix (A15).

* Hereinafter all references, unless otherwise noted, will be to the Appendix to this Petition.

Jurisdiction

The judgment of the Court of Appeals for the Second Circuit was made and entered on May 23, 1975, and a copy thereof is appended to this petition in the Appendix (A1). The jurisdiction of this Court is invoked under U.S.C. §1254(1).

Question Presented

Whether an interlocutory order refusing a stay of proceedings pending arbitration and granting a stay of arbitration is appealable under 28 U.S.C. §1292(a)(1) as an order granting or refusing an injunction? In *Baltimore Contractors* v. *Bodinger*, 348 U.S. 176 (1955) this Court held that appealability depended on whether the underlying action was "legal" or "equitable." This petition raises the question as to whether that distinction has continued viability.

Statute Involved

28 U.S.C. §1292(a)(1) provides in pertinent part:

§1292. *Interlocutory decisions*

(a) The courts of appeals shall have jurisdiction of appeals from:

(1) Interlocutory orders of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court; . . . .

Statement of the Case

In 1965, petitioner Packaging Industries, Inc., commenced an action against respondent in the District Court for the Southern District of New York* alleging infringement by respondent of a patent owned by petitioner and seeking damages therefor and injunctive relief (A4). Respondent answered in that action alleging invalidity of the patent and violations of the anti-trust laws. That action was concluded in 1968 by an agreement between the parties providing for an admission of validity of the patent, licensing of respondent for nine months, payment of royalties for past infringement, and arbitration of any dispute arising under the agreement, followed by a stipulation of dismissal with prejudice (A4).

On March 20, 1974, petitioner filed a demand for arbitration against respondent alleging that respondent had recommenced infringement of petitioner's patent after the nine month licensing period** (A4-5). On April 5, 1974 respondent commenced this action, alleging the same causes of action in its complaint as it had in its answer to the 1965 action, now styled as a declaratory judgment action for patent invalidity and non-infringement† and an action for violation of the antitrust laws†† (A7-8). Also included

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* *Packaging Industries, Inc.* v. *Diematic Manufacturing Corp.*, S.D.N.Y., 65 Civ. 2007.

** The District Court ruled that the arbitration clause of the agreement survived the nine month licensing period and no cross-appeal was taken from that ruling (A17).

† Jurisdictional bases: 28 U.S.C. §1338(a), and 35 U.S.C. §§1391 (b) and (c).

†† Jurisdictional bases: 15 U.S.C. §2, 15 U.S.C. §15, 28 U.S.C. §1337, and 28 U.S.C. §1332(a)(1).

in the complaint was a count titled "action to enjoin arbitration".*

Respondent moved for a stay of arbitration and petitioner cross-moved to stay the action pending arbitration and to dismiss the complaint for failure to state a claim upon which relief could be granted (A5). The District Court granted respondent's motion for a stay of arbitration while denying petitioner a stay of the action pending arbitration and denying petitioner's motion to dismiss (A5, A13). Petitioner appealed the District Court's order under 28 U.S.C. §1292(a)(1) as an interlocutory order refusing an injunction.

Respondent did not move to dismiss the appeal or otherwise question the jurisdiction of the Court of Appeals, but upon oral argument on its own initiative, the Court of Appeals called for briefing on the issue of its jurisdiction (A5). The Court of Appeals dismissed the appeal for lack of jurisdiction on the ground that the action sought to be stayed pending arbitration lay in equity and not in law, following this Court's decisions in *Baltmore Contractors* v. *Bodinger*, 348 U.S. 176 (1955), *Enelow* v. *New York Life Ins. Co.*, 293 U.S. 379 (1935), and *Shanferoke Coal & Supply Co.* v. *Westchester Service Corp.*, 293 U.S. 449 (1935) (A11). However, in so ruling, the Court of Appeals commented that the rule upon which its decision was based was unclear, "cumbersome at best and has mixed in it elements of the fantasies of Lewis Carroll and George Orwell" and called upon this Court to clarify the rule "before we sink further in the Serbonian Bog" (A9, A11).

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* Jurisdictional bases: 28 U.S.C. §§1338(a), (b), 1332(a)(1), 1332(c), 35 U.S.C. §1391(a) and (c), and 9 U.S.C. §2.

Reasons for Granting the Writ

The continued viability of the rule of *Baltimore Contractors* v. *Bodinger*, 348 U.S. 176 (1955) is a question of exceptional importance that ought to be decided by this Court. The Court's intervention is necessary to resolve the confusion among the Circuits concerning questions related to the appealability of orders staying or refusing stays of a proceeding pending arbitration.

The rule established by this Court in *Baltimore Contractors* v. *Bodinger*, 348 U.S. 176 (1955), *Enelow* v. *New York Life Ins. Co.*, 293 U.S. 379 (1935), and *Shanferoke Coal & Supply Corp.* v. *Westchester Service Corp.*, 293 U.S. 449 (1935) is that an order granting or denying a stay of an action pending arbitration is appealable under 28 U.S.C. §1292(a)(1) if the action to be stayed is an action at law. Since this Court's decision in *Baltimore Contractors* v. *Bodinger*, there has been a proliferation of decisions in the Circuits applying the rule but critical of the resulting revival of the law-equity distinction. See, *e.g.*, *New England Power Co.* v. *Asiatic Petroleum Corp.*, 456 F.2d 183, 189 (1st Cir. 1972); *American Safety Equipment Corp.* v. *J. P. Maguire & Co.*, 391 F.2d 820, 825 (2d Cir. 1968); *A & E Plastick Pak Co.* v. *Monsanto Company*, 396 F.2d 710 (9th Cir. 1968); *Travel Consultants, Inc.* v. *Travel Management Corp.*, 367 F.2d 334, 337 (D.C. Cir. 1966); *Kirschner* v. *West Company*, 300 F.2d 133 (3rd Cir. 1962, *en banc*). The Court itself in *Baltimore Contractors* v. *Bodinger* expressed strong misgivings about the viability of the rule while concluding that any change must await action by Congress. 348 U.S. at 184-185.

Twenty years have now elapsed, no such action has been forthcoming from Congress, and the federal courts con-

tinue to wrestle, as did the Second Circuit Court of Appeals here, with the incongruities and irrational results produced by applying the rule. Further complicating the situation is the burgeoning of arbitration clauses in commercial transactions, and a multiplicity of rules pertaining to orders staying or denying stays of arbitration depending upon whether such stays are the full relief sought, see, *e.g., Goodall-Sanford* v. *United Textile Workers,* 353 U.S. 550 (1957); *Communication Workers of America* v. *Rochester Tel. Corp.,* 340 F.2d 237 (2d Cir. 1965); *Farr & Co.* v. *Cia Intercontinental De Navegacion de Cuba,* 243 F.2d 342 (2d Cir. 1957), or whether they affect pending litigation. *See, e.g., Buffler* v. *Electronic Computer Programming Inst., Inc.,* 466 F.2d 694 (6th Cir. 1972); *Greater Continental Corp.* v. *Schechter,* 422 F.2d 1100 (2d Cir. 1970).

The basis of the revival of the law-equity distinction in cases such as the instant one is found not in the language of 28 U.S.C. §1292(a)(1) but in its history. Certainly, granting or denying a stay of arbitration or a stay of a proceeding pending arbitration ought to be included within the meaning of "granting" or "refusing" an injunction as used in that section. However, in *Enelow* v. *New York Life Ins. Co.,* 293 U.S. 379 (1935), this Court looked to the history of the statute preceding 28 U.S.C. §1292(a)(1) and concluded that the distinctions applied to the earlier statute also applied to the interpretation of 28 U.S.C. §1292(a)(1). This Court reasoned that since under the old statute orders constituting an exercise of equitable jurisdiction were distinguished from "a mere stay of proceedings which a court of law, as well as a court of equity, may grant in a cause pending before it by virtue of its inherent power to control the progress of the cause so as

to maintain the orderly progress of justice", and equity traditionally could not stay itself, the law-equity distinction was applicable to 28 U.S.C. §1292(a)(1). *Enelow* v. *New York Life Ins. Co.*, 293 U.S. at 381-382, 383.

In *Baltimore Contractors* v. *Bodinger*, 348 U.S. 176 (1955), this Court re-examined the *Enelow* rule. Although finding that the purpose of 28 U.S.C. §1292(a)(1) was to allow interlocutory appeals of orders having "serious, perhaps irreparable, consequences" (348 U.S. at 181) this Court adhered to the rigid law-equity distinction incorporated in 28 U.S.C. §1292(a)(1) while commenting:

> The reliance on the analogy of equity power to enjoin proceedings in other courts has elements of fiction in this day of one form of action. The incongruity of taking jurisdiction from a stay in a law type and denying jurisdiction in an equity type proceeding springs from the persistence of outmoded procedural differentiations. Some simplification would follow from an assumption or denial of jurisdiction in both. The distinction has been applied for years, however, and we concluded that it is better judicial practice to follow the precedents which limit appealability of interlocutory orders, leaving Congress to make such amendments as it may find proper. 348 U.S. at 184-185.

The instant case demonstrates two common and unresolved problems arising from the application of the rule of *Baltimore Contractors* v. *Bodinger*. First, since the main cause of action here was for a declaratory judgment which is neither legal nor equitable, the Circuit Court had to look to the nature of the underlying claims (A8-9). The underlying claims, after analysis, proved to be both legal and equitable, which forced the Circuit Court to

choose the one that appeared to be "dominant" (A10-11). The claim the Circuit Court concluded was "dominant" was an equitable one so that jurisdiction was found to be lacking (A11). However, the result could have just as well been otherwise. *American Safety Equipment Corp.* v. *J. P. Maguire & Co.*, 391 F.2d 820 (2d Cir. 1968). It is clear from its comments in the opinion in the instant case that the Circuit Court was not at all comfortable with the result:

> We have therefore placed ourselves in the unenviable position not only of solving modern procedural problems by the application of labels which have no currency, but also of considering the nature of lawsuits which were never brought (A9).

The tortuous approach of the Circuit Court here results from the abandonment of the law-equity distinction for virtually all purposes. As pleadings are not drawn in a way that permits a ready categorization of causes into legal and equitable, in order to follow the rule of *Baltimore Contractors* v. *Bodinger* the courts must make decisions based on "lawsuits that were never brought." Thus, the appealability of any order of the kind at issue here is a matter of total uncertainty.

Second, the result reached in the instant case undermines the purpose of 28 U.S.C. §1292(a)(1) as stated by this Court in *Baltimore Contractors* v. *Bodinger*, to permit appeals of interlocutory orders having serious, perhaps irreparable, consequences. The consequences of the denial of a stay of the proceeding pending arbitration and the granting of a stay of arbitration are serious to petitioner and irreparable to its interests. Through the granting of the stay of arbitration petitioner has been forced to proceed with time-consuming, costly, and burdensome litiga-

tion, even though the arbitration clause in its agreement with respondent was held to be valid and binding (A17). As was stated by the Court in *Buffler* v. *Electronic Computer Programming Inst.*, 466 F.2d 694, 698 (6th Cir. 1972):

> . . . [W]here the District Court's order *grants* a stay of arbitration, as in the present case, one party is effectively deprived of the relatively inexpensive and expeditious means by which the parties had agreed to resolve disputes. After the parties go through the expense and delay of a trial on the merits of the Court action, the advantages of arbitration are lost even if the dispute ultimately returns to arbitration. We find this consequence to be "serious, perhaps irreparable", requiring appealability of such an order.

See also *New England Power Co.* v. *Asiatic Petroleum Co.*, 456 F.2d 183, 186 (1st Cir. 1962).

Further, not only are the consequences serious to petitioner because it is denied the obvious benefits of arbitration, but a case that could have been resolved simply and expeditiously through arbitration must now await protracted litigation and possibly a full trial on the merits. The encouragement of the settlement of disputes through arbitration is a policy favored by the federal courts. See, *e.g.*, *Monroe Sander Corp.* v. *Livingston*, 377 F.2d 6 (2d Cir. 1967), *cert. denied* 389 U.S. 831 (1967). Such a beneficial policy is utterly frustrated by the application of the rule of *Baltimore Contractors* v. *Bodinger* in a case such as this, while no contravening policy is furthered. Indeed, through the application of the rule in this case, the purpose of 28 U.S.C. §1292(a)(1) is also frustrated in that an order with "serious, perhaps irreparable, consequences" is denied appealability.

Petitioner respectfully suggests that it is time for a re-examination of the incongruous rule of *Baltimore Contractors* v. *Bodinger*. It is apparent that that rule has outlived its usefulness, is creating untoward confusion in the federal courts, and is frustrating important policies of the federal courts and Congress in that it is preventing expeditious resolution of disputes by arbitration in appropriate cases and adding to the already heavy calendar burdens of those courts.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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